

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of the Application of)
Missouri-American Water Company)
for a Certificate of Convenience and)
Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control,)
Manage and Maintain a Water and)
Sewer Utility in Incline Village, Warren)
County, Missouri.)**

Case No. WA-2008-0012

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and, for its Staff Recommendation, states to the Missouri Public Service Commission as follows.

1. On July 18, 2007, the Commission issued its Order Directing Filing, in which it ordered the Staff to file, by no later than August 30, 2007, either a recommendation or a status report indicating the date on which it expects to file its recommendation regarding the applications of Missouri-American Water Company in these two consolidated cases. In subsequent pleadings, the Staff stated that it expected to complete its investigation, and to file its recommendation by no later than September 21, 2007.

2. The Staff has now completed its investigation. Attached hereto as Appendix A is the Staff Memorandum, which summarizes the results of the said investigation and recommends that the Commission issue an order that: grants the Company's request for a certificate of convenience and necessity to provide water and sewer service to the modified proposed service area, as shown in Attachment 1 (map of the modified service area), and as described in Attachment 2 (boundary description of the modified service area). The Staff further recommends that the Commission require the Company to submit new tariff sheets for its Incline

Village water and sewer tariffs, to include a map and written description of the revised service area in each, and that the Commission recognize that nothing in this Recommendation or in any order issued by the Commission in this case shall bind the Commission on any ratemaking issue in any future rate proceeding.

WHEREFORE, the Staff submits its Recommendation for the Commission's consideration.

Respectfully submitted,

/s/ **Keith R. Krueger**

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or e-mailed to all counsel of record on this 21st day of September 2007.

/s/ **Keith R. Krueger**

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NO. WA-2008-0012

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Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-2008-0012 Consolidated with SA-2008-0019
Missouri-American Water Company (Warren County Service Area)

FROM: James Merciel – Project Coordinator
Water & Sewer Department
Jeremy Hagemeyer – Auditing Department
Greg Meyer – Auditing Department
David Murray – Financial Analysis Department

<u>/s/ James A. Merciel, Jr.</u>	<u>09/21/07</u>
Project Coordinator	Date

<u>/s/ Keith R. Krueger</u>	<u>09/21/07</u>
General Counsel's Office	Date

SUBJECT: Recommendation Regarding Application for
Certificate of Convenience and Necessity

DATE: September 21, 2007

BACKGROUND

On July 11, 2007 (unless noted otherwise, all dates herein refer to the year 2007), Missouri-American Water Company, LLC ("MAWC" or "Company") filed an Application with the Commission, seeking an expansion of its Certificate of Convenience and Necessity ("certificate") to provide water and sewer service in its service area sometimes referred to as its Warren County area.

Although MAWC made one filing that pertained to both water and sewer service, the matter was assigned two case numbers, WA-2008-0012 for water, and SA-2008-0019 for sewer. On July 18, the Commission issued its **Order Consolidating Cases**, with WA-2008-0012 being designated as the lead case.

Also on July 18, the Commission issued its **Order Directing Notice and Setting Date for Submission of Intervention Requests** requiring that notice of the Application be sent to the Missouri Department of Natural Resources (DNR), legislators, county officials, and newspapers serving the affected area. This order also set August 6 as an intervention deadline for interested parties. No applications to intervene were submitted by the established deadline, nor have any been submitted since.

Also on July 18, the Commission issued its **Order Directing Filing** in which it ordered the Commission Staff ("Staff") to file a recommendation, or a status report stating when it expects to file a recommendation, by August 30.

On August 29, the Commission Staff ("Staff") filed its **Status Report** in which it stated that it believed it would be able to file its recommendation by September 13. The Staff then, on September 13, filed its **Staff's Second Status Report** stating that it was working with the Company on an adjustment to the proposed service area boundary, and that it expected to complete its work and file a recommendation by September 21.

DESCRIPTION OF SERVICE AREA, AND STAFF'S INVESTIGATION

As noted at the beginning of this Memorandum, Staff members from the Auditing, Water & Sewer and Financial Analysis Departments participated in the Staff's investigation of the Application. All Staff participants and the assigned attorney from the General Counsel's Office were provided the opportunity to review and comment on this Memorandum prior to it being filed. Jim Merciel of the Water & Sewer Department created the initial draft of this Memorandum, and comments received from the reviewers were incorporated therein to create this final version of the memo.

The existing service area is comprised of a development known as Incline Village and a few other smaller subdivisions. The company has approximately 386 water customers and 364 sewer customers. Most of the service area is in Warren County, with a portion in St. Charles County and another portion in Lincoln County, and with a total area of approximately two (2) square miles. The proposed expanded service area surrounds the existing service area with a total area of approximately eleven (11) square miles. From a watershed and gravity sewer system standpoint, approximately one-third of the proposed area, the northerly portion, flows north to the Big Creek, and the remainder of the service area flows into the Incline Village Lake or to an area below the lake dam directly into Indian Camp Creek. The Company's two existing sewage treatment plants are located adjacent to and on the north side of the lake. A few of the existing customers are in the Big Creek watershed, the Company serves that area with a lift station which pumps sewage to gravity sewers within the Incline Village lake watershed.

The Company has an agreement with a developer, which is contingent upon approval of this proposed expansion of the service area, to provide service to a new subdivision that is adjacent to Incline Village but outside of the existing service area. There is a potential for approximately 100 new customers as this new area develops. The Company also states that it has had inquiries from other potential customers who are in areas generally in the northern portion of the requested service area. The southern portion of the proposed service area is closer to Interstate 70 and the cities of Foristell and Wright City, where there is certainly development potential. Again from a sewage handling and treatment standpoint, the Staff believes that it is prudent for MAWC to

have control of this area since sewer issues could impact the Incline Village lake, as development takes place there.

Because of what the Staff believes is important with regard to the sewer service area, the Company and the Staff agreed to a modification of the south boundary line of its original proposal to fit better with the natural watershed. This modification still does not include the entire Incline Village lake watershed. The Staff believes that it is impractical to propose that the entire watershed of the Incline Village Lake be included because to the west, the watershed is very large, extending a number of miles. To the south, while the Staff believes that it is reasonable for MAWC to be available as a utility, some areas of the watershed could overlap with other existing development where service is already provided by Wright City and Foristell, and there is no need for MAWC to include such areas where service is already provided by these utilities. A map and description showing the proposed boundary as modified is included with this memorandum as Attachments A and B.

STAFF'S FINDINGS & CONCLUSIONS

The Company, in its Application, requested leave from the requirement of submitting a feasibility study as is required by 4CSR 240-3.305(1)(A)5 and 4CSR 240-3.600(1)(A)5. The Staff believes that this request is reasonable because the expanded area is simply further growth of an established service area, and the feasibility of providing service in the newly proposed area is no different from the feasibility of providing service in the existing area. This includes construction of water distribution and sewer collection pipelines under the terms of the existing water and sewer tariffs, in which applicants for service, be they developers or individuals, will fund the projects. In many cases of new development, new pipelines will be connected to the existing system, which is the same way that new pipelines within the existing service area would be handled. If distance makes it impractical to connect new pipelines to the existing system, then new water supply facilities, storage tanks, sewage treatment facilities and lift stations may be necessary, to be used either as interim facilities, or to be used separately for some time period until after additional development takes place, when they can be interconnected with the central system.

With regard to financing, the Company has already invested capital funds into central components of the water and sewer systems, and it would not be detrimental from a ratemaking standpoint for the Company to continue to do so as additional customers are added, even if this includes additional facilities in new locations. The Company indicated that they will use current, jointly recommended rates (upon approval from the Commission) for the Warren County operating district, and notably with regard to financing, if approved the Company will use the stipulated \$1,500 capacity charge for new customers, being addressed in Case No. WR-2007-0216, pending before the Commission, and into which Case No. ST-2007-0443 was also consolidated. ST-2007-0443 was created by tariff filing numbers JS-2007-0713 and JS-2007-0714, the latter involving the Incline Village service area. The \$1,500 capacity charge would be

used to reduce the rate base of the Company. This will apply to all new customers whether they are within the existing service area or within the new proposed service area. Finally, there will be no additions to rate base at this time in order to serve these new customers. Any extensions needed to serve these new customers will be constructed under the provisions of the Company's main extension rules.

Based upon its review of the documents and information provided by the Company and the Staff's familiarity with the Company, this system, the area, and its analysis of the "*Tartan Energy Criteria*" as discussed in the following section, the Staff has concluded that the Company's request for a certificate should be granted.

THE TARTAN ENERGY CRITERIA

Staff analyzed the Company's ability to meet the *Tartan Energy* criteria, as slightly modified by the Staff, as has historically been done in evaluating service area certificate applications. Conclusions regarding this matter are set out below.

Is there a need for the proposed service, and is there a need for the Company to provide the proposed service? There is a need for service in the requested area in that there are requests for service, and room for additional development. Regarding the matter of whether there is a need for the Company to be the entity providing service, part of the requested service area is within a public water supply district, which already has an overlapping service area with the Company's and which, in fact, provides water service to an area within the Company's existing service area. The Staff believes that there is a need for service in the area, and it is logical for the Company to provide the service, even if some competition might exist.

Is the Company qualified to provide the proposed service? The Staff believes that the Company has demonstrated technical and managerial ability to further develop and operate the water and sewer systems, in that it has systems that presently exist and are running in this area as well as in other areas in the state, and employs a staff of utility professionals.

Does the Company have the financial ability to provide the proposed service? The Staff believes that the Company has the financial capability because it is a subsidiary of one of the largest water utility companies in the United States, which has an investment grade corporate credit rating.

Is the Company's proposal economically feasible? The Staff believes that the proposed service area may be served as easily as expansions within the existing service area can be served, which is demonstrably feasible.

Does the Company's proposal promote the public interest? The Staff believes the Company's proposal promotes the public interest because reliable central water and sewer systems are desirable for this developing area. Additionally, control of sewer service by the Company is a benefit to the recreational lake that is a central landmark within the service area.

ADDITIONAL MATTERS

The Company will need to continue to keep its books and records in accordance with the Uniform System of Accounts, as is required of all regulated utilities. The Company will also need to prepare and file for approval new tariff sheets for its "Incline Village" water and sewer tariffs to include a map and written description of the revised service area.

The Company, as a regulated utility, will need to continue to comply with obligations including, but not limited to: filing an annual report; paying an annual assessment fee; providing safe and adequate service at just and reasonable rates; complying with all relevant state and federal statutes and rules; and complying with all orders of the Commission.

The Company has no delinquencies with regard to filing its annual reports and paying annual assessments. Jim Merciel conducted a review of the Commission's Adjudication Division annual assessments records covering fiscal year 2001 through the first quarter of fiscal year 2008, and a review of the Commission's Electronic Filing and Information System (EFIS) annual report records covering calendar years 2002 through 2006. The Company does not have any compliance-related issues involving the Missouri Department of Natural Resources. Also, the Company is presently in good standing with the Missouri Secretary of State. The aforementioned rate case, WR-2007-0216 and associated consolidated cases are pending before the Commission, however the Staff believes that a decision in this case will have no impact upon those cases, nor that any decisions in those cases will have any direct impact upon this case.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order that:

1. Grants the Company's request for a Certificate of Convenience and Necessity to provide water and sewer service to the modified proposed service area;
2. Requires the Company to submit new tariff sheets for its Incline Village water and sewer tariffs to include a map and written description of the revised service area in each;
3. Recognizes that nothing in this recommendation or in any order issued by the Commission in this case shall bind the Commission on any ratemaking issue in any future rate proceeding.

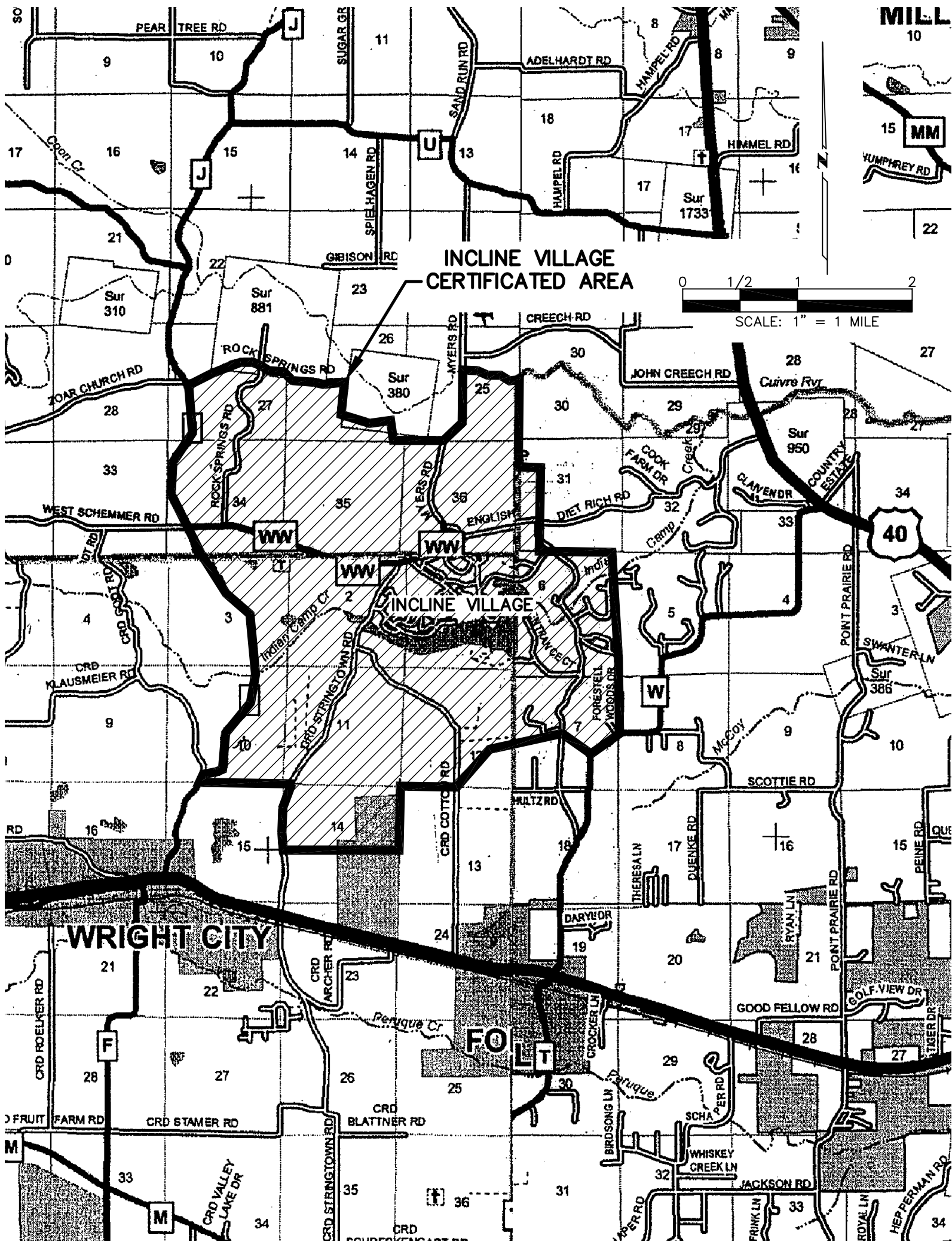
After the Company submits tariff sheets, the Staff will submit an additional recommendation regarding the approval of that tariff.

Attachment 1 Proposed modified map

Attachment 2 Proposed modified boundary description

Memo Attachment A

Proposed Modified Map



Memo Attachment B

Proposed Modified Descripton

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INCLINE VILLAGE **CERTIFICATED AREA DESCRIPTION**

AN AREA LOCATED IN PART OF U.S. SURVEYS 380 AND 881, AND PART OF SECTIONS 25, 26, 27 AND 34 AND ALL OF SECTIONS 35 AND 36 IN TOWNSHIP 48 NORTH, RANGE 1 WEST IN LINCOLN COUNTY, ALSO PART OF SECTION 31 IN TOWNSHIP 48 NORTH, RANGE 1 EAST IN ST. CHARLES COUNTY, ALSO ALL OF SECTION 6 AND PART OF SECTION 7 IN TOWNSHIP 47 NORTH, RANGE 1 EAST IN ST. CHARLES COUNTY AND ALL OF SECTIONS 1, 2, 11 AND PART OF SECTIONS 3, 10, 12, 13 AND 14 IN TOWNSHIP 47 NORTH, RANGE 1 WEST IN WARREN COUNTY, MISSOURI AND ADJACENT AREAS ALSO, AND ENCOMPASSING INCLINE VILLAGE IN SAID COUNTIES AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE SOUTHERN LINE OF SECTION 10, TOWNSHIP 47 NORTH, RANGE 1 WEST WITH THE WESTERN RIGHT-OF-WAY LINE OF STATE HIGHWAY "J", THENCE IN A NORTHWARD DIRECTIONS ALONG SAID WESTERN RIGHT-OF-WAY OF STATE HIGHWAY "J" TO ITS INTERSECTION WITH ROCK SPRINGS ROAD; THENCE DEPARTING SAID HIGHWAY "J" AND GOING IN AN EASTWARD DIRECTION ALONG THE NORTHERN RIGHT-OF-WAY LINE OF ROCK SPRINGS ROAD AND ITS PROLONGATION EASTWARDLY OF EAST ROCK SPRINGS ROAD TO ITS INTERSECTION WITH MYERS ROAD; THENCE IN A NORTHERLY DIRECTIONS ALONG THE WESTERN RIGHT-OF-WAY LINE OF MYERS ROAD TO ITS INTERSECTION WITH THE CENTERLINE OF BIG CREEK; THENCE DEPARTING SAID MYERS ROAD GOING IN AN EASTWARD DIRECTION ALONG THE CENTERLINE OF SAID BIG CREEK TO IT INTERSECTION WITH THE EASTERN LINE OF LINCOLN COUNTY; THENCE IN A SOUTHERN DIRECTION ALONG THE COMMON COUNTY LINE BETWEEN ST. CHARLES COUNTY AND LINCOLN COUNTY TO IT INTERSECTION WITH HUNN ROAD; THENCE IN AN EASTERLY AND SOUTHERLY DIRECTION ALONG THE NORTHERN AND EASTERN RIGHT-OF-WAY LINE OF HUNN ROAD TO ITS INTERSECTION WITH DIETRICH ROAD; THENCE CONTINUING IN A SOUTHERN DIRECTION ALONG THE EASTERN RIGHT-OF-WAY LINE OF SAID DIETRICH ROAD TO ITS INTERSECTION OF THE NORTHERN LINE OF SECTION 6, TOWNSHIP 47 NORTH, RANGE 1 EAST OF ST. CHARLES COUNTY; THENCE DEPARTING SAID DIETRICH ROAD GOING IN AN EASTWARD DIRECTION ALONG THE NORTHERN LINE OF SAID SECTION 6 TO THE

NORTHEAST CORNER OF SAID SECTION 6; THENCE IN A SOUTHERLY DIRECTION ALONG THE EASTERN LINE OF SAID SECTION 6 TO THE SOUTHEAST CORNER OF SAID SECTION 6; THENCE CONTINUING IN A SOUTHERN DIRECTION ALONG THE EASTERN LINE OF SECTION 7, TOWNSHIP 47 NORTH, RANGE 1 EAST OF ST. CHARLES COUNTY TO ITS INTERSECTION WITH SPARTAN DRIVE; THENCE IN A SOUTHERLY DIRECTIONS ALONG THE EASTERN RIGHT-OF-WAY LINE OF SPARTAN DRIVE AND FORISTELL WOODS DRIVE TO ITS INTERSECTION WITH THE SOUTHERN RIGHT-OF-WAY LINE OF STATE HIGHWAY "W"; THENCE IN A SOUTHWESTERLY AND SOUTHERN DIRECTION ALONG THE SOUTHERN AND EASTERN RIGHT-OF-WAY LINE OF SAID STATE HIGHWAY "W AN APPROXIMATE DISTANCE OF 1560 FEET TO THE PLUS OR MINUS WATERSHED LINE FOR THE AREA; THENCE DEPARTING SAID STATE HIGHWAY "W" NORTH 67 DEGREES WEST ALONG THE APPROXIMATE WATERSHED LINE A DISTANCE OF 1592 FEET MORE OR LESS TO A POINT; THENCE SOUTH 83 DEGREES WEST ALONG SAID APPROXIMATE WATERSHED LINE A DISTANCE OF 3520 FEET MORE ORE LESS TO A POINT; THENCE IN A STRAIGHT LINE IN A SOUTHWESTWERLY DIRECTION TO THE SOUTH QUARTER CORNER OF SECTION 12 IN TOWNSHIP 47 NORTH, RANGE 1 WEST; THENCE IN A WESTERLY DIRECTION ALONG THE SOUTHERN LINE OF SAID SECTION 12, 2640 FEET MORE OR LESS TO THE COMMON CORNER OF SECTIONS 11, 12, 13 AND 14 OF SAID TOWNSHIP 47 NORTH, RANGE 1 WEST; THENCE IN A SOUTHERLY DIRECTION ALONG THE EAST LINE OF SAID SECTION 14, 2640 FEET MORE OR LESS TO THE EAST QUARTER CORNER OF SAID SECTION 14; THENCE IN A WESTERLY DIRECTION ALONG THE SOUTH LINE OF THE NORTH HALF OF SAID SECTION 14 IN TOWNSHIP 47 NORTH, RANGE 1 WEST TO ITS INTERSECTION WITH THE WESTERN RIGHT OF WAY LINE OF NORTH STRINGTOWN ROAD; THENCE IN A NORTHERLY DIRECTION ALONG THE WESTERN RIGHT-OF-WAY LINE OF SAID NORTH STRINGTOWN ROAD TO ITS INTERSECTION WITH THE NORTHERN LINE OF SAID SECTION 14; THENCE DEPARTING NORTH STRINGTOWN ROAD IN A WESTERLY DIRECTION ALONG THE SOUTHERN LINE OF SECTIONS 10 AND 11 TO THE POINT OF BEGINNING.